

MANUAL CHANGE TRANSMITTAL


RW 0001 (REV. 10/93)

☒ R/W MANUAL CHANGE
(1993 Edition)

RWMC-28

☐ PROCEDURAL HANDBOOK
(1984 Edition)

 RWPH-_____
TRANSMITTAL#_____

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| TITLE RELOCATION ASSISTANCE | APPROVED BY  Gary Stilwell | DATE ISSUED October 19, 1995 PAGE 1 OF 2 |
| SUBJECT AREA Relocation Assistance - Chapter 10 <ul style="list-style-type: none"> • Lump Sum/Installment Payments • Special Valuations | ISSUING UNIT RELOCATION ASSISTANCE BRANCH | |
| SUMMARY OF CHANGES <ul style="list-style-type: none"> • Revises Section 10.10.05.00 and 10.10.06.01, et seq., regarding disbursement of rental assistance payments. • Adds Exhibit 10-EX-19, Special Valuation Procedures for Replacement Housing. | | |

PURPOSE

To transmit revised Right of Way Manual Sections 10.10.05.00 and 10.10.06.01, et seq., and new Exhibit 10-EX-19.

BACKGROUND

- In response to FHWA's expressed concern about the potential misuse of lump sum rent differential payments and in accordance with the Relocation Assistance Advisory Council's recommendation, procedures are being implemented that require periodic installment payments, above a prescribed level, to relocated tenants who rent after displacement.
- Special valuation procedures that were previously included in the text of the Procedural Handbook are now Exhibit 10-EX-19.

Example 1, Single Family Residence on Oversized Lot: Adds step-by-step analysis to determine contributing value, if any, of surplus land.

Example 2, Dwelling on Land with Higher and Better Use: Provides that the displacement value applied to the residential portion of an acquired property with highest and best use, other than residential, shall be the greater of either the "carve out" method or the "segregated opinion of value" method.

Example 3, Dwelling on Mixed Land Use: No change.

EFFECTIVE DATE

Effective immediately.

MANUAL IMPACT

Insert the attached pages, remove the obsolete pages, and record the action on the Revision Record.

REVISION SUMMARY

| <u>Chapter</u> | <u>Remove Old Pages</u> | <u>Insert New/Revised Pages</u> | <u>Replace Interim Change No.</u> |
|-----------------------|---|--|--|
| 10 | Table of Contents Divider Tabs Table of Contents (partial) 10.10-2 through 10.11-1 | Table of Contents Divider Tabs Table of Contents (partial) 10.10-2 through 10.11-1 Exhibit 10-EX-19 Pages 1-5 | N/A |

STATE OF CALIFORNIA
DEPARTMENT OF TRANSPORTATION

Right of Way Manual

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resident of an institution may be assumed to be a dependent, unless the person demonstrates otherwise.); or

- (iii) *The total of the amounts designated for shelter and utilities if receiving a welfare assistance payment from a program that designates the amounts for shelter and utilities."*

**10.10.05.00 Manner of Disbursement
[49 CFR 24.402(b)(3)]**

"A rental assistance payment may, at the Agency's discretion, be disbursed in either a lump sum or in installments. However, except as limited by §24.403(f), the full amount vests immediately, whether or not there is any later change in the person's income or rent, or in the condition or location of the person's housing."

Although rental assistance payments of \$5,250 or less are usually made in one lump sum payment, displacee may request annual installment payments that are not to extend more than 42 months beyond the move out date.

Refer to Section 10.10.06.01 for general guidelines covering rental assistance payments of \$5,250 or less and for those last resort housing payments greater than \$5,250.

Disbursement of rental assistance payments in excess of \$5,250 is made in accordance with the last resort housing guidelines set forth in Section 10.10.06.00, et seq.

10.10.05.01 Average Monthly Rent

The average monthly rent is the rental rate in effect during the three-month period immediately prior to vacation. For an owner-occupant who chooses to relocate as a tenant, use economic rent as shown in the acquisition appraisal of displacement dwelling (if owner does not rent back from District after escrow closes) or average monthly rental rate paid to District during three-month period prior to relocation.

NOTE: Average estimated monthly utility costs must be included in all computations of rental rates.

Little or no rent is defined as a rental rate that is unreasonably below the market rental rate for a comparable dwelling in the area.

The provision of little or no rent addresses payment computation for occupants who pay no rent or unreasonably low rent and for whom a payment based on such rent would result in a windfall. If the occupant's actual rent is below market rent for similar dwellings, the RAP Agent must document by a memorandum to file that no kinship, friendship, or other relationship exists and that the actual rent will be used in the payment computation. As a general rule, the RAP Unit must document all rental rates that are 25% below market rent as established in the fair market value appraisal.

Little or no rent may be paid for a variety of reasons, including:

- Tenant may be providing a service in lieu of all or a portion of rent.
- Tenant's relationship to landlord (e.g. kinship or friendship) may not result in an arm's length transaction.

To determine if a person is paying little or no rent before displacement, the RAP Agent should:

- Obtain estimated fair market rent from the appraisal (see Appraisal Chapter). If the appraisal is more than 6 months old, obtain a current estimated fair market rent.
- If the person's actual rental rate is considered little or no rent, contact Property Management and obtain estimation of fair market rent (project influence).
- Obtain and verify an Income Certification.
- Calculate the rental assistance payment using the lesser of fair market rent or 30% of verified gross monthly income.
- If the person refuses to provide an Income Certification, calculate the rental assistance payment using the greater of actual rent or fair market rent.

The above procedures apply only to new acquisitions and actual rent charged by private landlords. They do not apply to Department-owned properties where actual rent is less than fair market rent due to the Department's affordable rental rate policy.

NOTE: If displacee's rental rate is lower than market rent because of a public subsidy and the subsidy of a similar private or public subsidy program is available to displacee and will be continued after displacement, the market rent of displacement dwelling is used in the computation.

If the subsidy will be discontinued after the tenant vacates, actual rent is used. It must be documented that public housing is not available.

Unusual landlord-furnished services may require rental rate adjustments.

For RAP purposes only, market rent (with project influence) shall be defined as follows:

"The most probable rent that could be expected in the market for the displacement dwelling if it was available for rent with full consideration given to right of way corridor influence (if any), indeterminate term of tenancy, and the owner's desire to keep the dwelling occupied to prevent vandalism."

The above procedures are not intended to create a hardship for displacee. If analysis indicates a hardship is created, the District should relieve the hardship and document the background and alternative procedure taken in the file.

10.10.05.02 Monthly Gross Income

The monthly gross household income is as of the time displacee moves from the acquired premises. The RAP Agent determines if the 30% rule applies. The Agent shall advise displacee of this method of computing rental replacement payments and ask if the actual monthly rent plus estimated average monthly utilities of the displacement dwelling exceed 30% of monthly gross income. If the answer is no, the Agent annotates the parcel diary. If the answer is yes, the Agent:

- Secures an income statement on the standard form, RW 10-39, using the explanation of monthly gross income below.

- Computes the rental replacement housing payment per Section 10.10.05.05.

Monthly gross income is the anticipated monthly income of a person or family for the 12-month period following the date of determination of income. If it is not feasible to anticipate a level of income over a 12-month period, a shorter period may be used subject to redetermination at the end of such period.

10.10.05.03 Rental Assistance-Subsidized Housing

Replacement housing payments for tenants who occupy publicly subsidized rental housing and relocate to private housing or publicly subsidized housing are calculated so a tenant will not receive duplicate payment for a rental subsidy through both the Relocation Assistance provisions and a Federal Rental Subsidy Program. Publicly subsidized housing is defined as:

"Low rent public housing, FHA Sections 221(d)(3), 236 and other existing projects where rates are set on the basis of the tenant's income."

Occupants of publicly subsidized rental housing must be identified, and all replacement housing valuations and procedures must comply with the following:

- **Tenant moves from publicly subsidized housing to publicly subsidized housing** – the present rent and replacement rent are the amounts actually paid by the tenant.
- **Tenant moves from privately financed housing to publicly subsidized housing** – the existing rent is calculated in accordance with the provisions of Section 10.10.05.01. The replacement rent is the amount the tenant pays for the subsidized housing.
- **Tenant moves from publicly subsidized housing to privately financed housing** – the existing rent is the amount the tenant pays for the publicly subsidized displacement housing, not including the supplemental rent furnished by the public agency. If the tenant qualifies for comparable subsidized housing that is available in the replacement area, however, the tenant is entitled only to a rent supplement that would have been available had tenant actually relocated to subsidized housing. Calculation of rental assistance payments shall be in accordance with Section 10.10.05.05. This option is to be used only when it can be documented that DS&S publicly subsidized housing is not available to displacee.

10.10.05.04 Income Verification

When displacees claim that income should be the basis for calculating their rental assistance payment, all household members with an income must complete Franchise Tax Board Form 3516, Request for Copy of Tax Return (Exhibit 7-EX-19).

The RAP Agent must verify all income-based computations that result in a last resort rental assistance payment by reviewing displacee's copy of an income tax return for the tax year preceding the claim. (An income tax return for the tax year two years preceding the claim may be used if the claim is filed between January 1 and April 15 and a copy of the prior year is not yet available.) In the unusual event a copy of an income tax return is not available for review, the RAP Agent must document the reason it is not available and the type of alternative verification obtained, such as employers or credit reporting sources.

On a continuing representative sample basis, the RAP Unit must verify at least 10% of all non-last resort income statements by obtaining copies of displacees' State income tax forms from the Franchise Tax Board. A higher percentage of cases must be verified on small projects. Verification is a post audit comparing income reported on the income certification to income shown on copies of tax returns obtained from the Franchise Tax Board. The results of the post audit shall be submitted to the DORW yearly with the submission of Form RW 10-4, Statistical Report Form.

If the income verification does not substantiate displacee statements or if displacee refuses to provide verification, the actual rent of the displacement property must be used.

A diary entry is made indicating the method and result of the income verification. When income has been verified and documented in the District's file, the income tax return shall be returned to displacee. (See Section 10.08.23.07.)

NOTE: A notation must be made in the RAP Claims Log for each parcel where a rental assistance payment is made based on income.

10.10.05.05 Computing Rental Assistance Payments

Rental assistance is calculated by comparing base rent plus estimated average monthly cost of utilities on the displacement dwelling to base rent plus estimated average monthly cost of utilities on the replacement dwelling. If the computed rental assistance payment exceeds \$5,250, see Section 10.14.00.00, Replacement Housing of Last Resort, for additional information.

Utilities are defined as expenses for heat, lights, water, and sewer. The term "lights" means the cost for electricity for all normal household purposes. The term "estimated average monthly utility cost" means the District's estimate of utility expenses for a comparably-sized dwelling served by the same utility facilities.

In determining utility costs on comparables, it is the average utility cost for dwellings of similar size served by the same utility facilities as the comparable. Comparable size does not necessarily mean a comparison of square footage.

Study data developed by the District could be on some other basis, such as bedroom count.

The cost for heat is usually included in a natural gas or electric bill. It is appropriate to consider the cost of wood or coal if they are typically used for heat in the area. Liquified gas is also an appropriate utility expense.

The District is responsible for developing estimated average utility costs related to the displacement dwellings and the replacement comparables. Each district, and often each neighborhood, will have different data sources. The utility companies often have the most reliable information; HUD or local housing agencies may also have useful information. If there are no reliable data sources, then area survey methods are used.

The District should contact the DORW for guidance if needed.

The utility cost used to verify spend to get in the actual replacement property is verified as follows [Ref. 49 CFR 24.402(1)]:

- **Relocation in the Replacement Area** – estimated average monthly utility costs used in the displacee's latest entitlement calculation.
- **Relocation Outside the Replacement Area** – estimated average monthly utility costs in the actual area of the replacement property.

EXAMPLE: If the displacee moves to Reno, Nevada from Fresno, California, the Agent must obtain the average monthly utility costs for the replacement property in Reno.

The average monthly utility costs must be combined with the actual rent of the replacement property and compared with the monthly rent and estimated average cost of utilities for the most comparable replacement dwelling. The lesser total is the actual amount paid to displacee.

The request should emphasize that time is of the essence and that, unless absolutely necessary, an area wide survey is not needed. Contacts with local utility companies are usually sufficient.

When the actual replacement unit is located outside the district area of responsibility, the request for a DS&S inspection (Form RW 10-40) should also include a request for the average monthly utility costs for the type of unit (e.g., 3 bedroom - 2 bath) in the area of the actual replacement property.

The District should keep a log of utility requests showing data obtained within the District, outside the normal working area, and from other jurisdictions. This information, along with an account of the difficulties encountered, should be submitted with the annual report data to the DORW and may be used as a basis for modifying this aspect of the Federal regulations.

Nontenured or post-offer/subsequent occupants must provide an income certification (Form RW 10-39) to establish total monthly gross income. If displacees will not provide an income certification or other evidence of income, they are considered able to afford replacement housing. That is, replacement housing is within their financial means and they will not receive a rental supplement.

The income certification of all nontenured or post-offer/subsequent occupants must be verified with certified tax returns or paycheck stubs, for example.

NOTE: For State-only projects see Exhibit 10-EX-12 for State law requirements.

| CALCULATING RENTAL ASSISTANCE PAYMENTS | |
|---|--|
| Situation | Method |
| Average or estimated average rent and average monthly utility costs of the displacement dwelling do not exceed 30% of monthly gross income. | <p>Step 1 - Find the lower of estimated monthly replacement rent or actual rent paid on replacement property, including average monthly utility costs.</p> <p>Step 2 - Determine the average monthly rent and average monthly utility costs of displacement property.</p> <p>Step 3 - If Step 2 result is larger than or equal to Step 1, the answer is zero (0).</p> <p>Step 4 - If Step 2 result is smaller than Step 1, subtract Step 2 amount from Step 1 and multiply the result by 42 (months).</p> |
| Average monthly rent on the displacement property, including average monthly utilities, exceeds 30% of monthly gross income. | <p>Step 1 - Find the lower of estimated monthly replacement rent or actual rent paid on replacement property, including average monthly utility costs.</p> <p>Step 2 - Determine 30% of monthly gross income of the displacee.</p> <p>Step 3 - If Step 2 result is larger than or equal to Step 1, the answer is zero (0).</p> <p>Step 4 - If Step 2 result is smaller than Step 1, subtract Step 2 amount from Step 1 and multiply the result by 42 (months).</p> <p>NOTE: When rental assistance payments by other public agencies are involved, the average monthly rent is the amount actually paid by displacee excluding any rent subsidy. Calculate the payment as above.</p> |
| Nontenured or Post-Offer/ Subsequent Occupants | <p>Step 1 - Find lesser of calculated replacement rent or actual rent paid on replacement property, including average monthly utility costs</p> <p>Step 2 - Determine 30% of displacee's gross monthly income.</p> <p>Step 3 - If Step 2 result is larger than or equal to Step 1, the answer is zero (0).</p> <p>Step 4 - If Step 2 result is smaller than Step 1, subtract Step 2 amount from Step 1 and multiply the result by 42 (months).</p> |

10.10.05.06 Change of Rental Occupancy

If an eligible tenant moves into a replacement dwelling then relocates within the year to a higher-cost DS&S rental, another claim may be submitted for the amount in excess of the original claim. The amount of the increased claim, however, cannot exceed the total rental assistance payment originally calculated as of the date of move from displacement unit.

The displaced tenant has 42 months of rental assistance up to an established total, and the amount of the total eligible payment cannot be increased. Although the term of the payment normally cannot be extended, extensions are allowed under special circumstances.

Examples of changes in occupancy are handled as follows:

| | |
|---|--------|
| Calculated replacement rent + average monthly utility costs | \$ 500 |
|---|--------|

Displacement rent + average monthly utility costs is \$400

| | |
|--------------------------------|---------|
| Differential, per month | \$ 100 |
| Total eligibility (\$100 x 42) | \$4,200 |

The family moves into a DS&S replacement property for \$450 per month. The District pays \$2,100 (\$500 - \$450 = \$50 per month x 42 months = \$2,100).

Six months after the initial move the family moves to a second replacement property at \$500 per month. The remaining eligibility is paid for a remaining period of 36 months (42 months, less 6 months, used at \$450 per month) = 36 x \$100 = \$3,600.

The added payment is:

| | |
|-------------------------------------|---------|
| Total eligibility | \$4,200 |
| Less 6 months supplement (6 x \$50) | \$300 |
| Total amount due | \$3,900 |
| Less amount already paid | \$2,100 |
| Additional cash payment | \$1,800 |

The displacee has been paid for 6 months at a monthly supplement of \$50 and 36 months at a monthly supplement of \$100.

| | |
|------------|--------------|
| 6 x \$ 50 | \$ 300 |
| 36 x \$100 | <u>3,600</u> |
| | \$3,900 |

The displacee cannot claim the \$300 lost during the period of occupancy at less than the calculated rent supplement.

The District verifies the second move in the same manner used to verify and certify the original move.

NOTE: If the above tenant wants to purchase a home, the down payment is:

| | |
|---------------------------------|---------------|
| Down payment allowance | \$5,250 |
| Less rent supplement paid | <u>-2,100</u> |
| Down payment amount available * | \$3,150 |

*See Section 10.11.06.00.

10.10.06.00 Rental Assistance - Last Resort Housing

10.10.06.01 Rental Assistance Payment Procedures

Last resort housing rental assistance payments are those rental differential payments in excess of \$5,250. Such payments that do not exceed \$10,000 are usually paid as a single lump sum payment. Such payments that exceed \$10,000 are paid in annual installments.

Refer to the manual sections below for Lump Sum Payments and Installment Payments.

Where displacee could have received a lump sum payment but chose installment payments instead, the District RAP file must fully document that displacee requested the installment payment option and any subsequent changes in the manner of payment.

NOTE: An installment payment cannot be less than the amount required by displacee to occupy comparable DS&S replacement housing for the time period involved.

Regardless of the amount, displacee's rental assistance payment is fully "vested" immediately whether or not there is a later change in the person's income or rent or in the condition or location of the person's housing. Recertification or self certification of DS&S housing is not required after the initial qualifying inspection.

Documentation in support of the claim should be in the District RAP file, including:

- Claim form, Form RW 10-2.
- Computation of Rental Assistance Payment, Form RW 10-41.
- Current Replacement Housing Valuation.
- Copy of Rental Agreement for replacement property or evidence of rent paid on the replacement property.

10.10.06.02 Lump Sum Payment

Although last resort housing rental assistance payments of \$10,000 or less are usually made in one lump sum payment, displacee may request annual installment payments that are not to extend more than 42 months beyond the move out date. (See preceding manual section.)

10.10.06.03 Installment Payments

Last resort housing rental assistance payments in excess of \$10,000 are to be disbursed in annual payments as follows:

- **\$10,001 to \$35,000** - maximum payment of \$10,000 in any one year. For example, disbursement of an entitlement of \$24,000 would include \$10,000 in each of the first two years and the remaining balance of \$4,000 in the third year.
- **\$35,001 and greater** - payments to be prorated on the basis of 12/42 (or 2/7) for each of the first three years and the balance (6/42) in the fourth year. To determine the annual payment for each of the first three years, double the entitlement and divide by seven. The fourth year payment is simply the difference between the total entitlement and the total paid out in the first three years. For example, disbursement of an entitlement of \$44,000 would provide a payment of \$12,571.43 in each of the first three years and the remaining balance of \$6,285.71 in the fourth year.

Under normal circumstances the maximum number of periodic payments a displacee will receive is four. Under unusual circumstances, displacee may, however, request payment every six months or a maximum of seven installment payments. Such requests are allowed and are evaluated on a case by case basis. There may be times when it is in the Department's best interest to make periodic payments directly to the landlord. (See Exhibits 10-EX-17, Department/displacee agreement for special installment payments, and 10-EX-18, tenant/landlord rental agreement for direct payment.)

10.10.06.04 First Installment

The first installment may be made when displacee occupies DS&S replacement housing.

Form RW 10-41 (Computation of Rental Assistance Payment) must show total entitlement, installment amount, and payment periods. Approval of the first installment constitutes approval of the total entitlement and periodic payment schedule.

10.10.06.05 Second and Subsequent Installments

Second and subsequent installments are made on the annual anniversary date of the initial move from the displacement dwelling.

Thirty days prior to the anniversary date, the RAP Unit shall provide a claim form to displacee. Upon return of signed form, the installment may be paid. No DS&S inspection is required.

If displacee has vacated replacement property and cannot be found after reasonable effort, no further action is taken with respect to that or subsequent installments unless displacee reappears. When payments are suspended because displacee disappears, the RAP Unit shall document the file to show extent and results of efforts made to locate party.

The suspension time counts toward displacee's eligibility for relocation assistance payments; e.g., disappeared for 44 months, no further payments are authorized.

10.11.00.00 DOWN PAYMENT ASSISTANCE PAYMENT

10.11.01.00 Amount of Payment [49 CFR 24.402(c)(1)]

"An eligible displaced person who purchases a replacement dwelling is entitled to a down payment assistance payment in the amount the person would receive under paragraph (b) of this section if the person rented a comparable replacement dwelling. At the discretion of the Agency, a down payment assistance payment may be increased to any amount not to exceed \$5,250. However, the payment to a displaced homeowner shall not exceed the amount the owner would receive under §24.401(b) if he or she met the 180-day occupancy requirement. An Agency's discretion to provide the maximum payment shall be exercised in a uniform and consistent manner, so that eligible displaced persons in like circumstances are treated equally. A displaced person eligible to receive a payment as a 180-day owner-occupant under §24.401(a) is not eligible for this payment. (See also Appendix A of this part, §24.402(c).)"

10.11.02.00 Application of Payment [49 CFR 24.402(c)]

"Application of payment. The full amount of the replacement housing payment for down payment assistance must be applied to the purchase price of the replacement dwelling and related incidental expenses."

Down payment assistance is designed to help eligible displacees purchase and relocate to DS&S comparable housing. Eligible displacees may be entitled to receive payment, not to exceed \$5,250, applied towards:

- Actual down payment.
- Certain costs that are incidental to the purchase of the replacement dwelling, as provided in Section 10.09.08.00. Displacees in this category are not eligible for an interest differential payment.

A short-term owner (less than 180 days) may receive down payment assistance of \$5,250, but the payment shall not exceed the amount the owner would have received as a price differential

payment if they had met the 180-day occupancy requirement.

10.11.03.00 Conditions

The following conditions apply to entitlement for down payment assistance:

- Displacee must meet eligibility requirements in Section 10.10.01.00.
- Displacee may finance by any means or may pay cash.
- Displacee must apply all the funds to the purchase price and eligible incidental expenses.
- Displacee must pay for anything in excess of the calculated entitlement. The District is not committed to paying for down payments actually made or required for a replacement.

10.11.04.00 Non-Last Resort Procedures

In all non-last resort cases, the State pays \$5,250 as a down payment for eligible displacees.

10.11.05.00 Last Resort Procedures

All last-resort down payment funds must be placed into escrow and applied towards the purchase of housing. The only exception is to repay funds advanced by displacee.

The total applied towards down payment and incidental costs cannot exceed the maximum rental assistance payment.

The down payment is the amount shown on the closing escrow statement as the purchase price of the replacement dwelling less the amount of loan(s) on the property. Amounts claimed in excess of this must be justified as incidental expenses.

SPECIAL VALUATION PROCEDURES

EXAMPLE #1

SFR ON OVERSIZED RESIDENTIAL LOT:

Background Data: The displacement property is a SFR situated on land that exceeds the size of the typical residential lot. The displacement property lot contains 12,000 SF, whereas the typical lot has only 8,000 SF. The highest and best use of the land is for continued use as a single family residence. This is a total acquisition.

Task: To prepare a Replacement Housing Valuation (RHV) Report on the displacement property in a manner that is both equitable and fair to the State and the displaced person. To do so, we need to segregate the "contributory value" of the "surplus land area" from the total displacement property valuation as set forth in the FMV appraisal.

When preparing the RAP valuation, if you suspect the displacement dwelling is located on an oversized lot, and there are no available improved comparable replacement properties on similar sized lots, proceed as follows:

First, determine the size of the "typical residential lot" for the neighborhood (or project area) and confirm that you do in fact have an oversize lot. This is a judgment call, and you may want to consult with the local planning department or assessor's office for guidance. When you do have an oversize lot, think of the additional area as the surplus land area.

Second, determine the value of the typical residential lot by any approved appraisal method. Subtract the value of the typical lot from the total site valuation placed on the displacement property in the FMV appraisal. The difference is the contributory value of the surplus land area and should be deducted from the acquisition cost of the displacement property like any other major exterior attribute in the basic computation of the price differential entitlement.

In valuing the typical residential lot, you should proceed as follows:

- **Step 1**, determine if there are any available improved comparable replacement properties that have 12,000 SF lots. If so, these comparables may be used in the RHV. If none are available, go to
 - **Step 2**, attempt to locate bare land sales (or listings) of typically sized residential lots. If none, go to
 - **Step 3**, look for sales of improved properties where the sales occurred within a short time of each other, the improvements are nearly identical, and the only major difference between the two is that one lot is larger than the other. With all other things being nearly equal, a higher selling price of one could be attributed to the surplus land area. A difference in sales prices between the two properties would represent the contributory value of the surplus land area. If no such property sales have taken place, go to
 - **Step 4**, estimate the value of the typical R-1 lot based on the best available data. You might consider the opinion of the FMV appraiser, other fee appraisers in the area, real estate brokers, etc.. Document your source of data. If no such data is available, the only other alternative is,
 - **Step 5**, estimate the contributory value of the surplus land area itself based on the best available data. The question is how much extra would the typical home buyer pay for the additional land area. This too is a judgment call and the opinions of fee appraisers and brokers who are familiar with the area are probably the best source of information.
-

FOR EXAMPLE:

| | |
|--------------------|-----------|
| Displacement lot | 12,000 SF |
| Typical lot | 8,000 SF |
| Surplus | 4,000 SF |
| Contributory value | \$8,000 |

| | |
|---|-----------|
| Displacement property, total FMV appraisal | \$240,000 |
|---|-----------|

| | |
|------------------------------------|----------------|
| Contributory value | <u>- 8,000</u> |
| Adjusted RHV for acquisition price | \$232,000 |

Special valuation procedures for an "undersized lot" normally would not be necessary because there is no major exterior attribute.

Partial Acquisition

Where we have partial acquisition of residential property and the remainder property is capable of being developed for residential purposes, the State may offer to purchase the entire property. If the owner refuses to sell the remainder to the State, the fair market value of the remainder is added to the acquisition cost of the displacement property for purposes of computing the replacement housing payment.

EXAMPLE #2

DWELLING ON LAND WITH HIGHER AND BETTER USE:

The displacement value applied to the residential part of an acquired property with a highest and best use other than residential shall be the greater of either the "carve out" method or the "segregated opinion of value" method. This procedure also applies to partial takes involving higher and better land use.

A. Carve Out Method

1. Add value, if any, of the residence and its appurtenances to the acquisition price paid for the land attributed to residential use up to, but not exceeding, the area within a "typical residential lot."
2. For a partial acquisition, add any actual severance damage costs. It does not matter if the land acquired is inside or outside the area considered the "typical residential lot."
3. The total of Steps 1 and 2 is the residential displacement value based on the carve out method.

B. Segregated Opinion of Value Method

1. Estimate the value, supported by data from the appraisal section, of the dwelling improvement at its present location as if it were on a lot typical for the area and zoned for residential use.
2. Add the value, supported by data from the appraisal section, of a typical residential lot.
3. The total of Steps 1 and 2 is the residential displacement value based on the segregated opinion of value method.

C. Calculate Price Differential

Subtract the greater displacement value (calculated in Step A or B above) from the cost of the comparable replacement dwelling to arrive at the price differential.

FOR EXAMPLE:

Case 1 Background Data: (Full Acquisition)

The displacement is a larger, commercially zoned property that includes a single family residence. In this example, the area of the displacement property attributed to residential use is 10,000 SF, the same size as a typical residential lot.

Typical Residential Data

Typical residential lot 10,000 SF
Typical residential lot value - \$40,000
Value of the displacement dwelling as if located on a typical residential lot - \$85,000

Acquisition Data

Fair Market Value - Entire Property:

| | |
|--|--------------|
| Land - 20,000 SF of commercially zoned land @ \$14/SF (commercial value) | \$280,000 |
| Improvements -Single family residence and appurtenances (interim value) | <u>1,000</u> |
| Total Acquisition Price | \$281,000 |

Land area attributed to residential use - 10,000 SF

Cost of Comparable Replacement Dwelling - \$150,000

- **"Carve Out" Method**

| | |
|---|--------------|
| Acquisition price of land (10,000 SF* @ \$14/SF commercial value) | \$140,000 |
| Add acquisition price of SFR and appurtenances | <u>1,000</u> |
| Residential displacement value based on "carve out" method | \$141,000 |

(* If the area attributable to residential use were 8,000 SF that area would be used since it is less than the typical residential lot. However, if the area attributable to residential use were 12,000 SF, then the typical residential lot size of 10,000 SF would be used.)

- **"Segregated Opinion of Value" Method**

| | |
|--|--------------|
| Estimated value of dwelling as if it were on a homesite typical for the area and zoned for residential use | \$85,000 |
| Add typical residential lot value | <u>4,000</u> |
| Residential displacement value as if it were on a typical residential lot | \$125,000 |

- **Calculate Price Differential**

Residential displacement value based on the carve out value method is greater and should be used to calculate price differential.

| | |
|---|----------------|
| Cost of comparable replacement dwelling | \$150,000 |
| Less residential displacement value based on carve out method | <u>141,000</u> |
| Price differential | \$ 9,000 |

FOR EXAMPLE:

Case 2 Background Data: (Partial Acquisition)

The displacement is a larger, commercially zoned property that includes a single family residence. In this example, the area of the displacement property attributed to residential use is 10,000 SF, the same size as a typical residential lot. However, only 5,000 SF of land is being acquired along with the residence.

Typical Residential Data

| | |
|---|----------|
| Typical residential site - 10,000 SF | |
| Typical residential site value - \$40,000 | |
| Value of the displacement dwelling as if located on a typical residential lot | \$85,000 |

Acquisition Data

Fair Market Value - Entire Property:

| | |
|--|--------------|
| Land - 20,000 SF of commercially zoned land @ \$14/SF (commercial value) | \$280,000 |
| Improvements -Single family residence and appurtenances (interim value) | <u>1,000</u> |
| Fair market value of entire property | \$281,000 |

Fair Market Value of Part Taken:

| | |
|--|--------------|
| Land - 5,000 SF of commercially zoned land @ \$14/SF (commercial value) | \$70,000 |
| Improvements - single family residence and appurtenances (interim value) | <u>1,000</u> |
| Actual severance damage to the remainder | \$2,000 |

Cost of Comparable Replacement Dwelling - \$150,000

• **"Carve Out" Method**

| | |
|--|--------------|
| Acquisition price of land (5,000 SF* @ \$14/SF commercial value) | \$70,000 |
| Acquisition price of SFR and appurtenances (interim value) of | <u>1,000</u> |
| Add actual severance damage cost | <u>2,000</u> |
| Residential displacement value based on "carve out" method | \$73,000 |

(* Area attributable to residential use up to, but not exceeding, a typical residential lot)

• **"Segregated Opinion of Value" Method**

| | |
|---|---------------|
| Estimate value of dwelling as if it were on a homesite typical for the area and zoned for residential use | \$85,000 |
| Add typical residential lot value | <u>40,000</u> |
| Residential displacement value as if it were on a typical residential lot zoned for residential use | \$125,000 |

• **Calculate Price Differential**

Residential displacement value based on the segregated opinion of value method is greater, and therefore should be used to calculate price differential.

| | |
|---|-----------------|
| Cost of comparable replacement dwelling | \$150,000 |
| Less residential displacement value based on segregated opinion of value method | <u>-125,000</u> |
| Price differential | \$ 25,000 |

EXAMPLE #3
DWELLING ON MIXED LAND USE

A dwelling unit may be located on or within a commercial or industrial building. When the housing unit is separate and apart from the commercial or industrial building it is valued in the same manner as shown in Example #2. Frequently the dwelling is integrated within the business or industrial improvement. Typical examples are an owner's or operator's upstairs apartment or a backroom dwelling area.

For consistency, the land value for determining the dwelling displacement value must be the land area actually occupied by the dwelling, or a prorated share of the land value when there is a vertical, dual use of the land, such as an upstairs or basement dwelling unit, or a loft living area.

FOR EXAMPLE :

Background Data: Assume the displacement property is a grocery store with a second floor apartment.

| | | |
|----------------|--|---------------|
| | Land value of entire property 5,000 SF @ \$15/SF | \$75,000 |
| (Improvements) | Ground Floor 4,000 SF @ \$20/SF | 80,000 |
| (Improvements) | 2nd Floor Apartment 1,000 SF @ \$18/SF | <u>18,000</u> |
| | Total value of land and improvements | \$173,000 |

This displacement value is the value of the dwelling improvement plus the prorated value (50% of \$15/SF) of the land encumbered by the dwelling unit.

| | |
|---|---------------|
| Dwelling improvement value (2nd floor | \$18,000 |
| Land value (area encumbered by dwelling | |
| 1,000 SF @ \$7.50/SF) | <u>+7,500</u> |
| Total displacement value | \$25,500 |

If there is an additional side or back area that is reasonably appurtenant to the living area, that land is also included in the displacement valuation. In the above example, 50% is a reasonable measure of the residential encumbrance.
